

Washington State Auditor's Office

Audit Report

Audit Services

Report No. 57860

CITY OF ROCK ISLAND

Douglas County, Washington

January 1, 1994 Through December 31, 1995

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CITY OF ROCK ISLAND
Douglas County, Washington
January 1, 1994 Through December 31, 1995

**Independent Auditor's Report On Compliance With Laws And Regulations
At The Financial Statement Level (Plus Additional State Compliance
Requirements Per RCW 43.09.260)**

Mayor
City of Rock Island
Rock Island, Washington

We have audited the financial statements, as listed in the table of contents, of the City of Rock Island, Douglas County, Washington, as of and for the fiscal years ended December 31, 1995 and 1994, and have issued our report thereon dated September 17, 1996.

We conducted our audit in accordance with generally accepted auditing standards and *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement.

Compliance with laws, regulations, contracts, and grants applicable to the City of Rock Island is the responsibility of the city's management. As part of obtaining reasonable assurance about whether the financial statements are free of material misstatement, we performed tests of the city's compliance with certain provisions of laws, regulations, contracts, and grants.

We also performed additional tests of compliance with state laws and regulations as required by *Revised Code of Washington* (RCW) 43.09.260. This statute requires the State Auditor to inquire as to whether the city complied with the laws and the *Constitution of the State of Washington*, its own ordinances and orders, and the requirements of the State Auditor's Office. Our responsibility is to examine, on a test basis, evidence about the city's compliance with those requirements and to make a reasonable effort to identify any instances of misfeasance, malfeasance, or nonfeasance in office on the part of any public officer or employee and to report any such instance to the management of the city and to the Attorney General. However, the objective of our audit of the financial statements was not to provide an opinion on overall compliance with these provisions. Accordingly, we do not express such an opinion.

The results of our tests disclosed no instances of material noncompliance that are required to be reported herein under *Government Auditing Standards*. However, we noted an instance of noncompliance immaterial to the financial statements which is identified in the Schedule of Findings accompanying this report.

This report is intended for the information of management and the mayor and to meet our statutory reporting obligations. This report is a matter of public record and its distribution is not limited. It also serves to disseminate information to the public as a reporting tool to help citizens assess government operations.

Brian Sonntag
State Auditor

September 17, 1996

CITY OF ROCK ISLAND
Douglas County, Washington
January 1, 1994 Through December 31, 1995

Independent Auditor's Report On Internal Control Structure
At The Financial Statement Level

Mayor
City of Rock Island
Rock Island, Washington

We have audited the financial statements of the City of Rock Island, Douglas County, Washington, as of and for the fiscal years ended December 31, 1995 and 1994, and have issued our report thereon dated September 17, 1996.

We conducted our audit in accordance with generally accepted auditing standards and *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement.

The management of the city is responsible for establishing and maintaining an internal control structure. In fulfilling this responsibility, estimates and judgments by management are required to assess the expected benefits and related costs of internal control structure policies and procedures. The objectives of an internal control structure are to provide management with reasonable, but not absolute, assurance that assets are safeguarded against loss from unauthorized use or disposition, and that transactions are executed in accordance with management's authorization and recorded properly to permit the preparation of financial statements in accordance with the prescribed basis of accounting. Because of inherent limitations in any internal control structure, errors or irregularities may nevertheless occur and not be detected. Also, projection of any evaluation of the structure to future periods is subject to the risk that procedures may become inadequate because of changes in conditions or that the effectiveness of the design and operation of policies and procedures may deteriorate.

In planning and performing our audit of the financial statements of the city, we obtained an understanding of the internal control structure. With respect to the internal control structure, we obtained an understanding of the design of relevant policies and procedures and whether they have been placed in operation, and we assessed control risk in order to determine our auditing procedures for the purpose of expressing our opinion on the financial statements and not to provide an opinion on the internal control structure. Accordingly, we do not express such an opinion.

We noted certain matters involving the internal control structure and its operation that we consider to be reportable conditions under standards established by the American Institute of Certified Public Accountants. Reportable conditions involve matters coming to our attention relating to significant deficiencies in the design or operation of the internal control structure that, in our judgment, could adversely affect the entity's ability to record, process, summarize, and report financial data consistent with the assertions of management in the financial statements. The matters involving the internal

control structure and its operation that we consider to be reportable conditions are included in the Schedule of Findings accompanying this report.

A material weakness is a reportable condition in which the design or operation of one or more of the specific internal control structure elements does not reduce to a relatively low level the risk that errors or irregularities in amounts that would be material in relation to the financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions.

Our consideration of the internal control structure would not necessarily disclose all matters in the internal control structure that might be reportable conditions and, accordingly, would not necessarily disclose all reportable conditions that are also considered to be material weaknesses as defined above. However, we believe none of the reportable conditions described in the Schedule of Findings is a material weakness.

This report is intended for the information of management and the mayor and to meet our statutory reporting obligations. This report is a matter of public record and its distribution is not limited. It also serves to disseminate information to the public as a reporting tool to help citizens assess government operations.

Brian Sonntag
State Auditor

September 17, 1996

CITY OF ROCK ISLAND
Douglas County, Washington
January 1, 1994 Through December 31, 1995

Schedule Of Findings

1. Internal Controls Over Cash Receipts At The Rock Island Golf Course Should Be Improved

The city leases the operation of the city golf course. Under the terms of the lease agreement, the lessee pays the city a fixed monthly fee and 5 percent of membership and green fees collected. The terms of the lease agreement also give the city the authority to inspect golf course financial records.

During our audit of the Rock Island Golf Course, we noted the following internal control weaknesses in the cash receipting system:

- a. The cash register was broken and the drawer was left open. As a result, transactions could be made through the cash register without being recorded on the cash register tape.
- b. Cash register receipts were not given to customers.
- c. Prior to deposit, receipts from the Rock Island Golf Course were commingled with receipts from the lessee's private golf course. The lessee could not prove that all receipts related to the Rock Island Golf Course were deposited.
- d. Receipts were not deposited on a timely basis.
- e. A reconciliation of receipts and membership accounts was not performed. The lessee could not ensure that all members had paid their fee.

These weaknesses increase the risk that errors and/or theft may occur and not be detected in a timely manner, if at all. In addition, the city cannot be assured that the lessee remitted the proper amounts. During 1995, the golf course generated approximately \$212,100 in membership and green fees.

We recommend city officials ensure that internal controls over cash receipts are improved at the golf course. We further recommend city officials continue to inspect golf course financial records in accordance with the lease agreement.

Auditee's Response

The city will be addressing each item as follows:

- a. *Lessee now has in place a cash register with a working drawer. Transactions will be recorded on the register tape.*
- b. *The cash register prints out receipts and the receipts will be given to the customers.*

- c. *Lessee will no longer commingle receipts from both golf courses. Deposits and receipts for the Rock Island Golf Course will be kept separate.*
- d. *Receipts will be made on a timely basis, at least once a week.*
- e. *Lessee will keep two types of records on membership accounts. A membership card log, and also a receipt log.*

City officials will be inspecting the golf course financial records on a more timely basis.

2. The City Should Comply With The Open Public Meetings Act

During our review of city council minutes, we noted that the city did not comply with the Open Public Meetings Act. The reasons for executive sessions were not consistently disclosed. In addition, executive sessions were held for purposes not allowed by statute. We noted that the 1995 budget was discussed in executive session.

RCW 42.30.110 is a section of the Open Public Meetings Act which governs executive sessions. It requires the purpose of the executive session to be announced prior to convening in executive session. It also lists the 11 allowable reasons for holding an executive session.

These executive session requirements were discussed with city officials in prior audits.

As a result of the noncompliance, the public was not adequately informed and was denied an opportunity for comment.

We recommend the city comply with the provisions of the Open Public Meetings Act for all executive sessions.

Auditee's Response

All council members, mayor, and the city clerk now have a copy of RCW 42.30.110 which governs executive sessions. The purpose of the meeting will be announced prior to convening. If the purpose for the executive session is not listed in the RCW, then the session will not be allowed.

Auditor's Concluding Remarks

It appears that the concerns noted in the findings are being adequately addressed. We will review the city's progress in these areas during our next audit.

We wish to thank the city's officials and personnel for their assistance and cooperation during our audit.

CITY OF ROCK ISLAND
Douglas County, Washington
January 1, 1994 Through December 31, 1995

**Independent Auditor's Report On Financial Statements And Additional
Information**

Mayor
City of Rock Island
Rock Island, Washington

We have audited the accompanying statements of Fund Resources and Uses Arising from Cash Transactions of the various funds of the City of Rock Island, Douglas County, Washington, for the fiscal years ended December 31, 1995 and 1994. These financial statements are the responsibility of the city's management. Our responsibility is to express an opinion on these financial statements based on our audit.

We conducted our audit in accordance with generally accepted auditing standards and *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatements. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

As described in Note 1 to the financial statements, the city prepares its financial statements on the cash basis of accounting that demonstrates compliance with Washington State statutes and the *Budgeting, Accounting and Reporting System (BARS)* manual prescribed by the State Auditor, which is a comprehensive basis of accounting other than generally accepted accounting principles.

In our opinion, the financial statements referred to above present fairly, in all material respects, the recognized revenues and expenditures of the funds of the City of Rock Island for the fiscal years ended December 31, 1995 and 1994, on the cash basis of accounting described in Note 1.

Our audit was made for the purpose of forming an opinion on the financial statements taken as a whole. The accompanying Schedules of Long-Term Debt and Schedule of State Financial Assistance are presented for purposes of additional analysis and are not a required part of the financial statements. Such information has been subjected to the auditing procedures applied in the audit of the financial statements and, in our opinion, is fairly presented in all material respects in relation to the financial statements taken as a whole.

In accordance with *Government Auditing Standards*, we have also issued a report dated September 17, 1996, on our consideration of the city's internal control structure and a report dated September 17, 1996, on its compliance with laws and regulations.

Brian Sonntag
State Auditor

September 17, 1996